

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



**CORRECTED
FISCAL NOTE**

SB 1086 – HB 1667

March 5, 2009

SUMMARY OF BILL: Increases the coal severance tax from 20 cents to 50 cents per ton on July 1, 2009; from 50 cents to 75 cents per ton on July 1, 2011; and from 75 cents to \$1.00 per ton on July 1, 2013. Reduces from three percent to 1.125 percent the percentage of coal severance tax revenue that the Department of Revenue is authorized to retain for the purpose of covering the expenses associated with the administration and collection of coal severance tax.

ESTIMATED FISCAL IMPACT:

On March 3, 2009 we issued a fiscal note for this bill indicating the following estimated impact:

Increase State Revenue – Net Impact -

\$661,700/FY09-10 and FY10-11

\$1,214,300/FY11-12 and FY12-13

\$1,767,000/FY13-14 and subsequent years

Increase State Expenditures - \$32,400/One-Time

Increase Local Revenue –

\$116,900/FY09-10 and FY10-11

\$213,200/FY11-12 and FY12-13

\$309,400/FY13-14 and subsequent years

In preparing this fiscal estimate, an error was made regarding the apportionment of coal severance tax revenue. It was incorrectly assumed that coal severance tax revenue (net of a three percent allocation to the Department of Revenue for administration) was allocated 15 percent to the Tennessee Surface Mine Reclamation Fund, 70 percent to the Division of Energy, and 15 percent to local government. Pursuant to Tenn. Code Ann. § 67-7-110, coal severance tax revenue (net of a three percent allocation to the Department of Revenue for administration) is apportioned 100 percent to local government.

Local government is then required to apportion 50 percent of such coal severance tax to coal-severed county educational systems and 50 percent for coal-severed county highway and stream cleaning systems. As a result, the fiscal impact of this bill is estimated as follows:

(CORRECTED)

Decrease State Revenue –

\$1,000/Dept. of Revenue/FY09-10 and FY10-11

Increase State Revenue –

\$6,300/Dept. of Revenue/FY11-12 and FY12-13

\$13,600/Dept. of Revenue/FY13-14 and subsequent years

Increase State Expenditures - \$32,400/One-Time

Increase Local Revenue –

\$779,600/FY09-10 and FY10-11

\$1,421,200/FY11-12 and FY12-13

\$2,062,800/FY13-14 and subsequent years

Other Fiscal Impact – The state is estimated to recover all reduced revenue and all one-time expenditures by the end of FY14-15. From this point forward, the net fiscal impact to the state will turn positive as a result of the Department of Revenue continuing to receive (as noted above) an additional \$13,600 per year for tax administration.

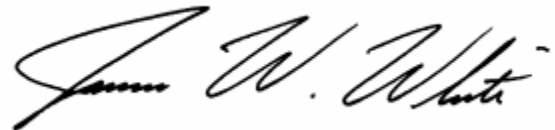
Assumptions:

- According to the Department of Revenue (DOR), coal severance tax collections were \$519,090 in FY07-08.
- The current coal severance tax is levied at \$0.20 per ton.
- The number of tons of coal severed in FY07-08 is estimated to be 2,595,450 ($\$519,090 / \$0.20 = 2,595,450$).
- The number of severed tons remains constant in subsequent years.
- The increase of coal severance tax revenue for FY09-10 and FY10-11 is estimated to be \$778,600 [$(2,595,450 \times \$0.50) - \$519,090 = \$778,635$].
- The increase of coal severance tax revenue for FY11-12 and FY12-13 is estimated to be \$1,427,500 [$(2,595,450 \times \$0.75) - \$519,090 = \$1,427,498$].
- The increase of coal severance tax revenue for FY13-14 and subsequent years is estimated to be \$2,076,400 [$(2,595,450 \times \$1.00) - \$519,090 = \$2,076,360$].

- Under current law, DOR is apportioned three percent of all coal severance tax collections or approximately \$15,600 per year ($\$519,090 \times 3.0\% = \$15,572$).
- The decrease of apportionment to DOR for FY09-10 and FY10-11 is estimated to be \$1,000 $\{[(\$519,090 + \$778,600) \times 1.125\%] - \$15,600 = \$1,001\}$.
- The increase of apportionment to DOR for FY11-12 and FY12-13 is estimated to be \$6,300 $\{[(\$519,090 + 1,427,500) \times 1.125\%] - \$15,600 = \$6,299\}$.
- The increase of apportionment to DOR for FY13-14 and subsequent years is estimated to be \$13,600 $\{[(\$519,090 + 2,076,400) \times 1.125\%] - \$15,600 = \$13,599\}$.
- One-hundred percent of coal severance tax revenue (net of three percent to DOR for tax administration) is apportioned to local government.
- The increase to local government revenue for FY09-10 and FY10-11 is estimated to be \$779,600 ($\$778,600 + \$1,000 = \$779,600$).
- The increase to local government revenue for FY11-12 and FY12-13 is estimated to be \$1,421,200 ($\$1,427,500 - \$6,300 = \$1,421,200$).
- The increase to local government revenue for FY13-14 and subsequent years is estimated to be \$2,062,800 ($\$2,076,400 - \$13,600 = \$2,062,800$).
- One-time state expenditures for computer and software modifications estimated to be \$32,400.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc